Central Mortgage
and Housing Corporation

Société centrale
d'hypothèques et de logement

Honourable André Ouellet
Minister of State
for Urban Affairs

L'honorable André Ouellet,
ministre d'Etat chargé des
Affaires urbaines

New directions in housing

Nouvelles tendances dans l'habitation

1978

Information - Renseignements

Urban Affairs Minister André Ouellet appearing May 16 before the Commons Committee on Health, Welfare and Social Affairs to discuss CMHC estimates recalled the elements of the Federal Government's "New Directions" in housing and community services. The highlights of the new policies include:

BROAD OBJECTIVES

* Maintenance of a high level of housing production.

* A substantial increase, up to 30,000 units per year from the present level of approximately 19,000 units, in the amount of housing available to meet the needs of the lowest income people.

* The disentanglement of the complex set of arrangements under which federal and provincial housing and community services programs have been operating.

* The fullest possible utilization of private sector capital for activity previously funded by the Federal Government.

POLICIES

* A new comprehensive low income housing program utilizing both current public housing arrangements and new arrangements for assisting non-profit housing corporations and cooperatives in the construction or acquisition of housing projects. Includes:

  Contributions to bring the effective interest rate down to one per cent on a 90 per cent loan with a 35-year amortization and down to two per cent where 100 per cent loans are utilized.

  An increase in start-up funds to $75,000 from the present level of $10,000 to help sponsors of private non-profit housing put together the complete documentation required to produce a viable project.

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An option to purchase available to occupants in non-profit and cooperative housing developments.

Increased use of the rent supplement program.

Global agreements will contain a three-year forecast of the federal funds to be committed for housing. This will enable both the federal and provincial governments to improve their future program planning. Also under the terms of the agreements CMHC agrees to withdraw from detailed project selection review, approval and inspection for both public non profit housing developments and loan-assisted public housing projects.

* Introduction of a new mortgage instrument called the graduated payment mortgage which will allow prospective home owners to buy moderately-priced homes with relatively low monthly payments at first which increase gradually over time. Features of the GPM include:

  An easing of the burden of mortgage payments during the early years of home ownership when payments take the largest portion of a home owner's income.

  Available on new and existing housing and on new rental dwellings having maximum prices as determined by CMHC.

  Allows for the bulk of Canada's home financing to be met in the private market.

* Revisions to the Assisted Home Ownership Program which will offer purchasers of new and existing houses under AHOP the same financial benefits that are provided through the graduated payment mortgage arrangement.

* A modified Residential Rehabilitation Assistance Program which will be more widely available providing loans and forgiveness grants based on income. Some of the highlights are:

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Extension of loans and forgiveness grants based on income to housing outside designated areas.

Priority to people on low incomes and in areas with housing most in need of repair.

The list of improvements that may qualify for assistance has been widened.

* A Community Services Grant Program which consolidates and expands the Neighborhood Improvement Program, the Water and Sewage Treatment Program and the Municipal Incentive Grant Program. The new federal program will:

  Reduce duplication in detailed administrative procedures by disentangling the federal government from project-by-project scrutiny.

  Provide increase flexibility and wider latitude to the provinces and their municipalities in using federal funds.

  Enable federal assistance to better respond to local needs and conditions.

  Enhance the degree to which federal assistance meets the priorities of the provinces and their municipalities.

Information - Renseignements

COMMUNITY SERVICES GRANT PROGRAM

Introduction

The Government of Canada is willing to adopt a global approach to its financial aid to municipalities by consolidating the Neighbourhood Improvement Program, the Municipal Infrastructure Program and the Municipal Incentive Grant Program into one Community Services Grant Program. This program will be continuous and ongoing,in recognition that it relates to community services expenditures which require long-term commitments on the part of recipient governments.

The new program could start this year with an initial funding level of $150 million to December 31, 1978. As of January 1, 1979, the program will increase to its long-term annual funding level of $250 million.

Objectives

By reflecting the principle of global funding accepted by federal and provincial Ministers of Housing at a meeting in Edmonton in February 1978, the new federal program seeks to:

i) provide increased flexibility and wider latitude to the provinces and their municipalities in using federal funds;

ii) enable federal assistance to better respond to local needs and conditions;

iii) reduce duplication in detailed administrative procedures by disentangling the federal government from project-by-project scrutiny;

iv) enhance the degree to which federal assistance meets the priorities of the provinces and their municipalities; and

v) better ensure that federal assistance is available equally to all provinces.

The Role of the Provincial Governments

Annual funding for the new program will be allocated to the provinces on the basis of the urban population and municipal tax capacity in each province. In advance of any budgetary year, provinces will be informed of the funding amounts available to them. In turn, the provinces will determine allocations to their municipalities on the basis of agreed to criteria in advance of the municipal fiscal year. Municipalities will then incur expenditures on allowed community services during the municipal fiscal year and, at the end of the year, submit a duly certified statement of expenditures. Municipalities will then be reimbursed for their expenditures.

Each province will decide the rules it wishes to apply for the allocation of funds to its municipalities. During the consultations the Canadian government indicated that there were at least four possible ways to construct allocative formulae. However the federal government is prepared to accept any method proposed by the provinces as long as it is administered equitably on the basis of objective criteria and facts.

The province will be responsible for the approval of projects proposed by the municipalities. Each province can choose the relative importance it wishes to attach to the full list of eligible community services and may restrict this list.

Relationship to Existing Programs

The new program will amalgamate three existing programs: the Neighbourhood Improvement Program, which terminated with respect to new commitments at the end of March; the Municipal Incentive Grant Program, for which the new commitment authority ends on December 31, 1978; and the Municipal Infrastructure Program which will be terminated in its present form on December 31, 1978.

The provinces can continue to allocate funds for neighbourhood improvement, for municipal infrastructure, or for any other eligible expenditure, as they see appropriate. In addition they can continue to pursue the objective of encouraging medium density housing as under the Municipal Incentive Grant Program. This can be done by including such production targets in the method of distributing the funds among municipalities.

In a very real sense, these programs continue, yet permit the provinces flexibility to choose between neighbourhood improvement, sewage treatment and other allowable expenditures, without the need for federal approval to reallocate funds across eligible expenditure categories. This means that the provinces can choose to allow funds to be used for any subset of the list of eligible services which follows.

Eligible Community Services

The list of eligible community services is as follows.

1) Planning and installation of sewage treatment, trunk lines and plants in new and existing areas.

2) Planning and installation of community water supply, facilities for new and existing areas, including trucked water supplies, as well as piped water supplies.

3) Planning and installation of trunk storm sewer systems, holding tanks and any treatment facilities required in new and existing areas.

4) Planning and installation of sewer and water site services provided for residential land development conforming to specified density criteria.

5) Social and cultural facilities, including day care centres, community centres and libraries.

6) Community recreational facilities, including community centres, senior citizens' recreation centres, neighbourhood ice rinks, parks and similar facilities.

7) Neighbourhood improvement and conservation, planning for upgrading older low income neighbourhoods, provision of open space and community facilities on a neighbourhood scale, relocation of people displaced by the provision of additional facilities, upgrading local services within the neighbourhood where these are deficient and similar items.

8) Non-Profit housing, the municipal equity.

9) Upgrading insulation of municipal buildings and community facilities.

10) Facilities which convert municipal waste (garbage, sludge, etc.) to energy production.

This list reflects the kinds of needs and demands for community services which have been expressed by provinces and their municipalities. This program does not pretend to completely fund all these services; rather it allows provinces and their municipalities flexibility to set priorities and then concentrate their funds on carrying out these priorities.

The federal government will no longer provide loan funds, but grants instead, and these on a continuing basis. This means that recipients will be significantly better off than under the existing programs. Moreover, funds can be used for debt servicing purposes, thereby enabling recipients better access to private capital funds.

Allowable Expenditures

Funds may be used for capital expenditures and the servicing of debt at the discretion of each province.

Allowing funds to be used to meet capital expenditures for permissible expenditure categories has a number of advantages. First, it will ensure that all municipalities are able to make use of funds. Second, it may be appropriate to finance certain capital expenditures in years of acquisition. And finally, because of provincial rules regarding debt loads, it will permit municipalities with high debt loads to undertake capital expenditures.

The use of funds to meet debt servicing charges on capital projects will permit municipalities to undertake large capital projects, without increasing the burden imposed by debt; will allow municipalities to make better use of funds for capital expenditures; and will recognize that many capital projects in allowable expenditure categories are of high cost requiring that they be repaid over a period of years.

The Start-Up of the Program

This new approach will become operational after steps relevant to each province have been clarified at meetings of officials. The federal government is willing to formalize its commitment by signing an operating agreement with each province.

APPENDIX

PROPOSED PROVINCIAL FUNDING DISTRIBUTION UNDER THE COMMUNITY SERVICES GRANT PROGRAM BASED ON URBAN POPULATION AND MUNICIPAL TAX CAPACITY

PROVINCES	IN 1978 (In Millions $)	IN 1979 (In Millions $)
Newfoundland	4.20	7.00
Prince Edward Island	.90	1.50
Nova Scotia	5.55	9.25
New Brunswick	4.20	7.00
Quebec	47.10	78.50
Ontario	51.60	86.00
Manitoba	6.30	10.50
Saskatchewan	4.65	7.75
Alberta	10.65	17.75
British Columbia	15.15	25.25

During 1978 transition year both new and existing programs will be available in all provinces.

LOW-INCOME HOUSING

A new housing program addressed to the needs of low-income families has been worked out in consultation with the provincial governments.

A 30,000 unit-per-year target has been set - compared to current levels of about 19,000 - that would consist of 17,500 dwellings either newly-constructed or acquired from the existing stock and a further 12,500 units to be made available through the rent supplement measure.

The new approach will be implemented under a revised set of arrangements utilizing both the current public housing provisions and a modified non-profit housing technique. The aim is to make the non-profit programs more attractive to users; penetrate more deeply down the income range and provide for an income mix in projects.

Under the new provisions, the Federal Government will provide, via the non-profit technique, contributions to bring the effective interest rate down to as low as one per cent on a 90 per cent loan with a 35-year amortization. To reduce federal capital requirements,

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private capital resources would be used to finance provincial, municipal and privately-sponsored non-profit and co-operative housing units. National Housing Act loan insurance would be available for provincial, municipal and private housing financed by NHA approved lending institutions. The loan insurance would be issued for provincial and municipal projects upon the receipt of certification of the project details from the province.

For those provinces who wish to retain the existing public housing arrangements, federal loans and subsidies would still be available.

Non-profit, co-operative and public housing units will be offered to low-income occupants on the basis of a rent-to-income scale or market rent whichever is less. A 25 per cent scale, based on gross family income, will be used. While new projects should be started on the 25 per cent basis, it is understood that some time may be required to bring existing developments up to the agreed target level.

The price and size limits, by market area, used for the Assisted Home Ownership Program will apply under the new non-profit co-operative arrangements.

Non-profit/co-operative housing corporations and public housing agencies will be encouraged to adopt a best-buy policy, that is acquiring from the inventory of new, unoccupied projects and acquiring and renovating used dwellings as well as constructing new projects.

CMHC will encourage non-profit corporations and co-operatives to provide their residents with an option to purchase wherever this is feasible. Such an option would be available on family housing units for which separate title can be obtained. Occupants would be able to exercise the option when they could afford a Graduated Payment Mortgage or other means of achieving ownership.

There is one other important change with regard to the Non-Profit Housing Program. The Federal Government has been making up to $10,000 available to private non-profit sponsors for start-up funds. This money is to help the sponsoring groups to put together a fully-documented application for funding from CMHC. It can be used to cover expenditures for research, organization, incorporation, selection of a site, options to purchase, professional fees, and similar costs. Experience has indicated that this contribution of up to $10,000 is sometimes not enough to allow the sponsors to put together well-founded proposals which are likely to result in a viable enterprise. Henceforth, start-up funds for these purposes will be available in amounts up to $75,000, depending on the size and complexity of the project.

All new projects under the new non-profit arrangements must continue to meet National Housing Act regulations, standards and guidelines. However, in the case of provincial and municipal non-profit corporations, CMHC will withdraw from detailed project selection, review,

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approval and inspection. CMHC will accept instead provincial certification that program criteria have been met as a basis for determining eligibility for federal contributions, loans and insurance.

The specific instrument for achieving this disentanglement will be federal/provincial global and operating agreements. The agreements will cover such items as policy principles, financial planning and budget allocation including limits on the federal aid available for a given year.

The federal government will continue to deal directly with private non-profit and co-operative organizations. These groups will be eligible for federal subsidies which will bring the effective interest rate to one per cent when 90 per cent private loans are available and to two per cent where 100 per cent loans are employed. Federal loan funds at market rates would continue to be available although these organizations would be encouraged to seek private financing. Moreover, private non-profit and co-operative organizations will be encouraged to do rehabilitation projects.

Information - Renseignements

RESIDENTIAL REHABILITATION ASSISTANCE PROGRAM

Urban Affairs Minister André Ouellet announced that the Canadian Government has modified the Residential Rehabilitation Assistance Program (RRAP) in order to make it more widely available. Loans and forgiveness grants based on income will be available throughout Canada.

The Residential Rehabilitation Assistance Program introduced in 1973 provides federal aid to assist in the improvement and repair of substandard dwellings.

Loans, of which part of the repayment may be forgiven, have been available only to homeowners and landlords who own property in Neighbourhood Improvement Program areas and other specially-designated areas of Canada.

It is recognized that in urban Canada a number of people outside designated areas may have incomes equally low and housing conditions as poor as those in the NIP areas, where these conditions are concentrated. Under the existing legislation, the rehabilitation loans and grants are restricted to designated areas. In municipalities which currently have areas designated for RRAP and which wish to extend the program, additional

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designations may be sought. Up to 10 per cent of the budget allocation will be available for this purpose. Additional municipalities will be considered in relation to their need in future years as funds become available through the completion of work in existing areas. Assistance is being offered for dwellings in all rural areas in most provinces through an extension of the Rural Residential Rehabilitation Assistance Program for 1978.

The expanded program will continue to give priority to people on lower incomes and to areas with housing most in need of repair. For the next year or two, priority of funds will be given to rehabilitation required for completion of NIP projects, until that backlog has been substantially met.

Homeowners may receive loans of up to $10,000 with maximum forgiveness of $3,750 depending on income. Landlords may also receive loans of up to $10,000. However, under the 1978 program modifications, effective May 15, the calculation of forgiveness available to landlords has been changed to 50 per cent of rehabilitation cost or $2,500 per dwelling unit whichever is lower. Non-profit corporations will be exempted from this change.

Interest will be charged at a rate related to that yielded by certain Government of Canada bonds.

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RRAP assistance is available for those dwellings, including hostels, which are substandard in at least one of five basic items: structural soundness, fire safety, electrical, plumbing and heating. Priority is given to repairs in these five basic areas but a variety of other improvements are permissible including installation of insulation and other measures to improve thermal efficiency.

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Information - Renseignements

GRADUATED PAYMENT MORTGAGE

In order to apply AHOP-type benefits to the existing housing stock, Central Mortgage and Housing Corporation is proposing a new NHA-insured mortgage formula for private mortgage lending. Called the Graduated Payment Mortgage, it will allow Canadians to purchase moderately-priced homes with relatively low monthly payments at first which increase gradually over time.

The Graduated Payment Mortgage will extend substantially the same benefits to both new and existing moderate-cost housing as are provided under the current AHOP arrangements involving a payment reduction loan in the form of a second mortgage. The GPM is a reflection of announced policy concerning the fullest possible utilization of private sector funding for activity previously financed from the federal government.

Private mortgage lenders will also be encouraged to adopt the GPM technique to the production of new rental housing so that the federal government can reduce its own financial commitment under the Assisted Rental Program.

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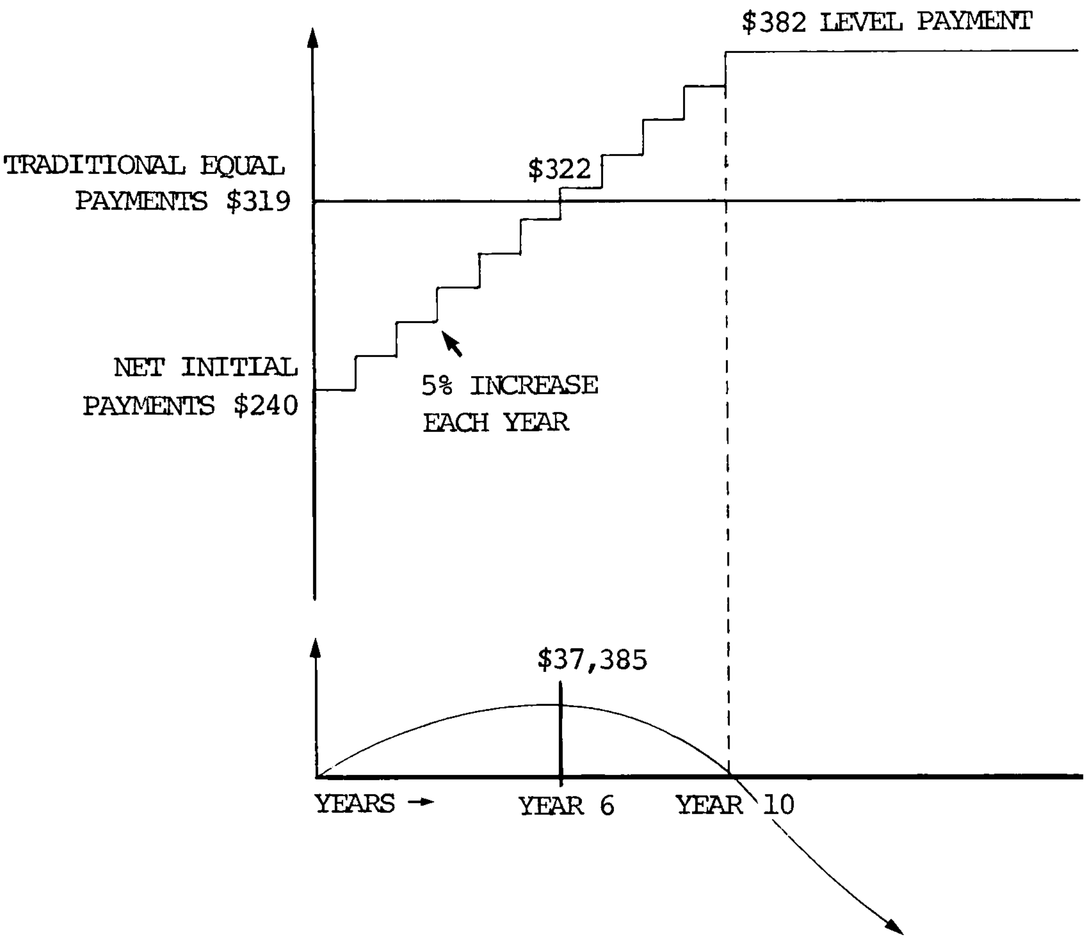
For example, in the first year of a 25-year, $35,000 mortgage, the borrower's payments could be reduced from what is required on a 10¼ per cent mortgage by 2.25 per 1000 of first mortgage amount. Monthly payments in the first year would be $240, rising to $373 in the tenth year, and then remaining constant at $382 for the remaining 15 years. In comparison, a standard mortgage loan of $35,000 over 25 years at 10¼ per cent would require monthly payments of $319 throughout the life of the mortgage.

The basic design has already been implemented within the British Columbia Credit Union movement, and on experimental basis by the United States Department of Housing and Urban Development.

GRADUATED PAYMENT MORTGAGE PAYMENT CHARACTERISTICS

$35,000 MORTGAGE 25 YEARS AMORTIZATION AT 10¼%



NEW 1978 AHOP PROGRAM

Central Mortgage and Housing Corporation has introduced a revised version of the Assisted Home Ownership Program effective May 1, 1978. Like previous versions, it will continue to provide Canadians with the opportunity to purchase moderately priced homes that feature relatively low monthly mortgage payments at first which increase gradually over time.

AHOP type benefits are extended to the existing housing stock with the introduction of a new Graduated Payment Mortgage formula.

The new assistance will be provided in the form of a Payment Reduction Loan available to all purchasers of new dwellings priced within established AHOP limits.

The Payment Reduction Loan will be an interest-bearing second mortgage and, in the first year of home ownership, it will equal $2.25 per month for each $1,000 of the borrower's first mortgage.

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The second mortgage assistance will be gradually withdrawn at a rate producing a constant five per cent increase in the borrower's net principal and interest payments annually.

The assistance will be continued for five years, or longer in cases of hardship, and the full amount of the Payment Reduction Loan will be repayable by the end of the 10th year with interest calculated from the date of the initial advance on the loan.

No minimum household size will be required for eligibility for the new AHOP support. The first mortgage on the dwelling must, however, be for a period of from 25 to 35 years and the mortgage payments, including principal, interest and taxes, and, if applicable, 50% of condominium common expenses, must not exceed 30 per cent of the borrower's income.

In essence, the new AHOP program offers purchasers the same financial help that will be provided through the introduction of the Graduated Payment Mortgage arrangement for National Housing Act loans. AHOP'78 is intended primarily to facilitate access to the benefits of graduated mortgages, pending the adoption of that mortgage payment arrangement by Canada's private lenders.

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AHOP 1976 and earlier AHOP assistance is applicable to new housing for which commitments were issued prior to the introduction of the AHOP 1978 program. However, applications for new housing projects received after the introduction of AHOP 1978 will automatically come under the terms of the new program.

Another revision to the AHOP program is to allow the owner of an AHOP home to pass the interest reduction loan to another purchaser. This should place him in a better competitive position and should also result in improved sales.

Moreover, CMHC will alter its present policy to allow the conversion of AHOP projects into ARP and vice-versa. Allowing interchange between the two programs will provide an important measure of flexibility required for today's market. If, for example, the builder-owner of AHOP homes finds that the market is more suitable for rental units, he will be able to convert them with financing under ARP in order to establish an affordable rent structure. Similarly, the owner of rental units built with ARP assistance can transform them into AHOP homes.

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Information - Renseignements

ASSISTED RENTAL PROGRAM

Introduced in 1975, the Assisted Rental Program (ARP), has helped to increase the supply of rental accommodation. In 1976, 23,102 dwelling units received ARP assistance, while last year, the number of units receiving assistance jumped to 60,125.

A modified Assisted Rental Program will be effective May 1st, 1978, to stimulate the production of new, moderately-priced rental accommodation, particularly in those areas where such units are in short supply.

As with the earlier program, the objective of ARP in 1978 will be to bridge the gap between rentals that builders could actually expect to receive in certain market areas and the amount they would have to charge to meet their own expenses and realize a reasonable profit.

For 1978, however, ARP financial support will be in the form of a "Payment Reduction Loan" - a second mortgage not exceeding, for the first year, an amount equal to $2.25 per month for each $1,000 of the first mortgage. The Payment Reduction Loan will bear interest at the

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same rate as the first mortgage, which must be insured under the National Housing Act and represent 90% of the project's reproduction cost as determined by CMHC.

The first mortgage must also have a minimum five-year term with a full amortization period of between 25 and 35 years.

The second mortgage assistance will be gradually withdrawn at a rate producing a constant five per cent increase in the borrower's net principal and interest payments annually.

The revised ARP arrangements are designed to provide rental entrepeneurs with benefits similar to those which will become available to them under the Graduated Payment Mortgage plan being introduced this year.

ARP '78 is intended as a transitional program which will be phased out as private mortgage lenders increasingly adopt Graduated Payment Mortgages in their lending programs.

Moreover, CMHC will alter its present policy to allow the conversion of AHOP projects into ARP and vice-versa. Allowing interchange between the two programs will provide an important measure of flexibility required for today's market.

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If, for example, the builder-owner of AHOP homes finds that the market is more suitable for rental units he will, in future, be able to convert them with financing under ARP in order to establish an affordable rent structure. Similarly, the owner of rental units built with ARP assistance can transform them into AHOP homes.

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